

Agenda Date: October 27, 2004

Item Number: A1

Dockets: UG-041749

Company Name: Northwest Natural Gas Company

Staff: James M. Russell, Regulatory Analyst
Joanna Huang, Regulatory Analyst

Recommendation:

Allow the revised tariff sheets in Docket UG-041749 to become effective November 1, 2004, by operation of law.

Background:

On September 29, 2004, Northwest Natural Gas Company ("NW Natural" or "Company") filed revisions to its Purchase Gas Adjustment (PGA) and Deferral Amortization (Deferral) tariffs under Docket UG-041749. The filing also includes an update of the tracker rates for demand side management activities, a small increase (1.3%) associated with the South Mist Pipeline Extension, and refunds associated with certain property dispositions. The combined effect of these items results in an increase in annual gas sales revenues of approximately \$11,421,000 million (19.2%) as detailed below:

	Revenue/% Change	
Purchased Gas Adjustment (prospective gas cost change)	\$7,481,000	(12.6%)
Deferral Amortization (historic true-up)	3,184,000	(5.4%)
South Mist Pipeline Extension	765,000	(1.3%)
Demand Side Management Tracker	83,000	(0.1%)
Property Disposition Refund	<u>-92,000</u>	<u>(-0.2%)</u>
Total	\$11,421,000	(19.2%)

NW Natural serves approximately 56,000 customers in Southwest Washington. The average residential customer's bill will increase by approximately \$12.30 per month from \$63.00 to \$75.30 (based on 65 therms).

Purchase Gas Adjustment and Deferral Amortization

The Purchased Gas Adjustment (PGA) and Deferral Amortization mechanisms are designed to pass on gas costs to customers on a periodic basis. The PGA establishes for the upcoming year what the best projection is going to be for the utility's gas costs. The difference between the projected cost and the actual cost is deferred and ultimately amortized back to customers with interest, whether it be a refund or surcharge balance.

NW Natural's filed tariff sheets reflect a prospective total commodity weighted average cost of gas of \$0.52355 per therm resulting in an increase in annual revenues of approximately \$7.5 million (12.6%). Currently embedded in NW Natural's gas retail rates is a weighted average cost of gas of \$0.40607 per therm. NW Natural's proposed commodity cost of gas is comparable to the costs included in other gas utilities' PGA filings this year. The commodity cost of natural gas in the spot market has recently been in the \$0.55 to \$0.75 per therm range.

Gas Cost Deferral Amortization

The deferred gas cost amortization reflects the true-up of actual gas costs incurred during prior periods. In this filing, NW Natural proposes to collect an under-recovery of gas costs of approximately \$957,000. Currently, NW Natural is refunding approximately \$2.2 million a year. By replacing this refund with a surcharge, the net impact results in an annual increase of approximately \$3.2 million

South Mist Pipeline Extension

In accordance with the Settlement in NW Natural's last general rate case, Docket No. UG-031885, the filing includes the revenue requirement impact of the final phase of the South Mist Pipeline Extension (SMPE) that went into service on September 22, 2004. The Company's filing has been revised for the SMPE impact in order to reflect actual construction costs through September 2004 (rather than an estimate) and for revised volumes which are used to calculate the rate impact. The total construction costs were revised from an estimate of \$107 million down to the actual costs incurred through September 2004 of \$94.8 million. Also, the original filing was not in compliance with the Settlement Agreement with regard to the volume to be used for establishing the rate impact.

Demand Side Management and Property Dispositions

The filing also includes minor rate impacts to true up the cost the company has incurred for DSM expenditures and includes a refund associated with Washington customer's share of properties that were incorrectly included in the Company's rate base in the past. These Oregon properties, which were treated as common property, were identified through an Oregon PUC proceeding.

Conclusion:

Staff has reviewed NW Natural's prospective gas costs and deferral amortization rates proposed in its filings. Staff believes they are reasonable. Staff has also reviewed the SMPE proposal and, as revised, believes it is in accordance with the Settlement Agreement. Therefore, the Staff recommends that the Commission allow the revised tariff sheets in Docket UG-041749 to become effective November 1, 2004, by operation of law.